



uBuhlebezwe Local Municipality
Annual Financial Statements
for the year ended June 30, 2018

uBuhlebezwe Local Municipality

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2018

General Information

Mayoral committee

His worship, The Mayor

Z D Nxumalo

Cllr. E.B. Ngubo (Deputy Mayor)

Cllr. C. Z Mngonyama (Speaker)

Cllr. Z.M. Shabalala

Cllr. T.T. Mkhize

Cllr. B. M. Caluza

Cllr. P. Ndlovu

Cllr. T.C. Dlamini

Cllr. M.C. Ndlovu

Cllr. V.C. Mkhize

Cllr. N.Z. Jili

Cllr. H.C. Jili

Cllr. G.J. Ngcongco

Cllr. S.P. Maluleka

Cllr. N.G. Radebe

Cllr. Cllr Z.C. Khumalo

Cllr. N.M. Mdunge

Cllr. P.B. Mpungose

Cllr. S.M. Msimango

Cllr. C.N. Ntabeni

Cllr. T.B. Nxumalo

Cllr. E.T. Shoba

Cllr. B.M. Khuboni

Cllr. M.C. Nkontwana

Cllr. B.R. Zulu

Cllr.B.R. Nduli

Cllr L.M. Davids

Grading of local authority

Grade 3 (In terms of Remuneration of Public Office Bearer)

Accounting Officer

Mr. G.M. Sineke

Chief Finance Officer (CFO)

Ms. N.K. Sibobi

Registered office

Ubuhlebezwe Local Municipality

Margaret Street

Ixopo

3276

Business address

29 Margaret Street

Ixopo

3276

Postal address

P.O.Box 132

Ixopo

3276

Bankers

First National Bank

Auditors

Auditor General (S.A)

Registered Auditors

uBuhlebezwe Local Municipality

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Finance Management Grant

uBuhlebezwe Local Municipality

(Registration number KZN 434)

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 53, which have been prepared on the going concern basis, were approved by the accounting officer on July 31, 2018 and were signed on its behalf by:

G.M Sineke
Accounting Officer

uBuhlebezwe Local Municipality

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Annual Financial Statements for the year ended June 30, 2018

Statement of Financial Position as at June 30, 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	8	2,346,190	2,532,983
Receivables from exchange transactions	9	5,631,159	4,941,495
VAT receivable from exchange transactions	10	4,602,892	3,636,813
Prepayments	7	675,156	373,815
Trade receivable non exchange transaction	11	1,783,600	4,065,562
Cash and cash equivalents	12	136,378,132	118,300,602
		151,417,129	133,851,270
Non-Current Assets			
Investment property	2	19,853,275	20,364,596
Property, plant and equipment	3	259,236,520	240,274,312
Intangible assets	4	1,105,036	881,020
Heritage assets	5	4,808,819	4,808,819
		285,003,650	266,328,747
Total Assets		436,420,779	400,180,017
Liabilities			
Current Liabilities			
Payables from exchange transactions	16	28,799,622	15,404,021
Unspent conditional grants and receipts	14	1,163,515	1,163,515
Provisions	15	3,893,612	3,651,080
Bank overdraft	12	1,434,618	-
		35,291,367	20,218,616
Non-Current Liabilities			
Employee benefit obligation	6	6,089,000	4,738,000
Provisions	15	2,355,000	1,962,000
		8,444,000	6,700,000
Total Liabilities		43,735,367	26,918,616
Net Assets		392,685,412	373,261,401
Housing Development		373,787	373,787
Accumulated surplus		392,311,625	372,887,614
Total Net Assets		392,685,412	373,261,401

* See Note 38

uBuhlebezwe Local Municipality

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Annual Financial Statements for the year ended June 30, 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	2,155,141	1,762,066
Rental of facilities and equipment	19	923,761	1,173,223
Agency services		634,223	714,848
Licences and permits		2,710,002	3,304,893
Other income	20	220,901	993,735
Interest received - investment	21	10,664,810	9,215,250
Total revenue from exchange transactions		17,308,838	17,164,015
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	12,744,064	11,947,679
Donations received		-	4,230,683
Transfer revenue			
Government grants & subsidies	23	126,444,003	124,757,917
Fines, Penalties and Forfeits		-	1,579,580
Total revenue from non-exchange transactions		139,188,067	142,515,859
Total revenue	17	156,496,905	159,679,874
Expenditure			
Employee related costs	24	(62,912,128)	(55,818,236)
Remuneration of councillors	25	(9,901,684)	(8,378,802)
Depreciation and amortisation	26	(20,470,908)	(20,114,861)
Impairment loss/ reversal of impairments	27	-	(57,809)
Finance costs	28	(2,856)	(1,423)
Debt Impairment	29	(4,477,729)	(3,286,342)
Contracted services	30	(16,153,998)	(10,012,035)
General Expenses	31	(19,214,843)	(23,864,019)
Total expenditure		(133,134,146)	(121,533,527)
Operating surplus		23,362,759	38,146,347
Gain (loss) on disposal of assets and liabilities		127,230	(1,748,421)
Surplus for the year		23,489,989	36,397,926

* See Note 38

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Statement of Changes in Net Assets

	Housing Development Fund	Accumulated surplus	Total net assets
Figures in Rand			
Balance at July 1, 2016	373,787	336,489,688	336,863,475
Surplus for the year	-	36,397,926	36,397,926
Total changes	-	36,397,926	36,397,926
Restated* Balance at July 1, 2017	373,787	372,707,234	373,081,021
Changes in net assets			
Prior period adjustment	-	(3,885,598)	(3,885,598)
Net income (losses) recognised directly in net assets	-	(3,885,598)	(3,885,598)
Surplus for the year	-	23,489,989	23,489,989
Total recognised income and expenses for the year	-	19,604,391	19,604,391
Total changes	-	19,604,391	19,604,391
Balance at June 30, 2018	373,787	392,311,625	392,685,412

Note(s)

* See Note 38

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Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Property rates		12,292,781	9,809,082
Sale of goods and services		2,155,141	2,267,899
Grants		146,444,000	149,096,000
Interest income		10,664,810	9,215,250
		171,556,732	170,388,231
Payments			
Payroll related costs		(72,813,812)	(61,221,246)
Suppliers		(43,850,179)	(61,673,453)
Finance costs		(2,856)	(1,423)
		(116,666,847)	(122,896,122)
Net cash flows from operating activities	32	54,889,885	47,492,109
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(39,401,350)	(37,454,339)
Proceeds from sale of property, plant and equipment	3	60,612	4,296,635
Purchase of investment property	2	-	(195,882)
Purchase of other intangible assets	4	(243,160)	-
Proceeds from sale of other intangible assets	4	(14,075)	-
Purchases of heritage assets	5	-	(17,159)
Proceeds from sale of other assets		-	(1,925)
Net cash flows from investing activities		(39,597,973)	(33,372,670)
Cash flows from financing activities			
Movement in retirement benefits: post employment medical benefits		1,351,000	951,400
Net increase/(decrease) in cash and cash equivalents		16,642,912	15,070,839
Cash and cash equivalents at the beginning of the year		118,300,602	103,229,763
Cash and cash equivalents at the end of the year	12	134,943,514	118,300,602

* See Note 38

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	1,991,000	-	1,991,000	2,155,141	164,141	(a)
Rental of facilities and equipment	500,000	500,000	1,000,000	923,761	(76,239)	(b)
Agency services	835,000	(60,000)	775,000	634,223	(140,777)	(c)
Licences and permits	3,695,000	(620,000)	3,075,000	2,710,002	(364,998)	(d)
Other income	5,215,000	(2,919,000)	2,296,000	220,901	(2,075,099)	(e)
Interest received - investment	7,000,000	3,000,000	10,000,000	10,664,810	664,810	(f)
Total revenue from exchange transactions	19,236,000	(99,000)	19,137,000	17,308,838	(1,828,162)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	15,748,000	(1,163,000)	14,585,000	12,744,064	(1,840,936)	(g)
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Transfer revenue

Government grants & subsidies	146,948,052	(39,052)	146,909,000	126,444,003	(20,464,997)	(h)
Fines, Penalties and Forfeits	250,000	-	250,000	-	(250,000)	(i)

Total revenue from non-exchange transactions	162,946,052	(1,202,052)	161,744,000	139,188,067	(22,555,933)	
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Total revenue	182,182,052	(1,301,052)	180,881,000	156,496,905	(24,384,095)	
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Expenditure

Employee related costs	(67,622,000)	-	(67,622,000)	(62,912,128)	4,709,872	(j)
Remuneration of councillors	(9,756,000)	(136,000)	(9,892,000)	(9,901,684)	(9,684)	
Depreciation and amortisation	(19,000,000)	-	(19,000,000)	(20,470,908)	(1,470,908)	(k)
Contribution to provision	(1,500,000)	-	(1,500,000)	(4,477,729)	(2,977,729)	(l)
Other materials	(675,000)	(15,000)	(690,000)	-	690,000	(m)
Contracted Services	(21,232,000)	(42,000)	(21,274,000)	(16,153,998)	5,120,002	(n)
Transfers and Subsidies	(2,381,000)	(19,692,000)	(22,073,000)	-	22,073,000	(o)
Other expenditure	(22,919,000)	48,000	(22,871,000)	(19,214,843)	3,656,157	(p)

Total expenditure	(145,085,000)	(19,837,000)	(164,922,000)	(133,134,146)	31,787,854	
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Operating surplus	37,097,052	(21,138,052)	15,959,000	23,362,759	7,403,759	
Gain on disposal of assets and liabilities	2,000,000	(2,000,000)	-	127,230	127,230	

Surplus after capital transfer & contribution	39,097,052	(23,138,052)	15,959,000	23,489,989	7,530,989	
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Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	39,097,052	(23,138,052)	15,959,000	23,489,989	7,530,989	
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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

(a) Service charges

This is mainly due to prior year being used as basis for current year budget estimation(original budget).

(b) Rental of facilities

This was due to lower than anticipated halls hired during the year.

(c) Agency Services

The collection of Traffic Department income was lower than expected which led to lower agency fees received from the Department Transport.

(d) Licences and permits

Lower than budgeted income was due to that this income is dependent on the number people who apply for both permits and licences, making it difficult to forecast the number of applicants.

(e) Other income

Lower than planned sale of land due to delays in implementing infrastructure development around the planned areas to be sold.

(f) Interest in investments

Higher than anticipated rate of interest on cash investments.

(g) Property rates

A correction to valuation of a Farm which was significantly overstated which resulted in higher than actual billing of rates. This error was corrected in the current year.

(h) Government grants and subsidies

INEP was initially budgeted for under revenue, however there was no revenue recognised in the income statement due to changes in the accounting treatment by provincial circular.

(i) Fines, penalties and forfeits

This was due to lower fines issued than expected.

(j) Employee costs

This was due to reduction in overtime which was implemented by Social Development Department of the Municipality.

(k) Depreciation

Higher than budgeted depreciation due to correction of capitalisation performed in the current year.

(l) Operating lease under lease rentals

This was budgeted under general expenditure

(m) Impairment provision

Slower collections than planned and therefore a higher than budget impairment provision.

(n) Other materials

This was budgeted under general expenditure.

(p) Transfers and subsidies

The expenditure relating to grants is accounted for in general expenses

(q) Other Expenditure

Underbudget due to cost saving initiatives

The accounting policies on pages 10 to 26 and the notes on pages 26 to 53 form an integral part of the annual financial statements.

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Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

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Accounting Policies

1.4 Investment property (continued)

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Accounting Policies

1.5 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	25 - 30
Finance Lease Assets	Straight line	3
Plant and Equipment	Straight line	10 -20
Furniture and office equipment	Straight line	5-15
Motor vehicles	Straight line	7
Computer equipment	Straight line	5-10
Infrastructure - Cemeteries	Straight line	15-30
Machinery and equipment	Straight line	5-15
Infrastructure - Electricity	Straight line	15 -30
Infrastructure - Road	Straight line	15 - 55
Infrastructure - Solid Waste Disposal	Straight line	10 - 55
Heritage Asset	Straight line	Infinite
Specialised vehicles	Straight line	10-20

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

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1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3
Servitudes	Straight line	Infinite

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1.6 Intangible assets (continued)

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

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1.7 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or

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1.8 Financial instruments (continued)

- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;

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1.8 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

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1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

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1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

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1.13 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

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1.14 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

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1.16 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

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1.17 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

All municipalities are required to comply with mScoa as from the 1st July 2017. uBuhlebezwe Local Municipality have implemented the mScoa and comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or

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Accounting Policies

1.22 Irregular expenditure (continued)

- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2017 to 6/30/2021.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

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Accounting Policies

1.24 Related parties (continued)

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.26 Unspent Conditional Grants and receipts

Unspent portion of the conditional grants are accounted as current liabilities.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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Figures in Rand 2018 2017

2. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	21,028,533	(1,175,258)	19,853,275	21,329,532	(964,936)	20,364,596

Reconciliation of investment property - 2018

	Opening balance	Transfers	Depreciation	Total
Investment property	20,364,596	(301,000)	(210,321)	19,853,275

Reconciliation of investment property - 2017

	Opening balance	Additions	Depreciation	Total
Investment property	20,379,035	195,882	(210,321)	20,364,596

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	923,761	1,173,223
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3. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	25,882,318	(10,661,178)	15,221,140	23,433,094	(10,377,051)	13,056,043
Plant and machinery	7,061,267	(3,472,514)	3,588,753	5,532,050	(2,962,969)	2,569,081
Furniture and fixtures	8,277,626	(5,172,069)	3,105,557	7,971,612	(4,038,628)	3,932,984
Motor vehicles	15,072,250	(8,365,251)	6,706,999	13,951,682	(6,757,768)	7,193,914
IT equipment	2,905,679	(2,323,767)	581,912	2,891,764	(2,010,580)	881,184
Infrastructure	260,764,832	(163,729,017)	97,035,815	242,293,106	(152,805,456)	89,487,650
Community	149,741,739	(47,326,714)	102,415,025	137,241,627	(44,688,133)	92,553,494
Other property, plant and equipment	1,580,883	(1,485,353)	95,530	612,909	(451,785)	161,124
Libraries	4,706,767	(1,623,634)	3,083,133	4,869,144	(1,623,634)	3,245,510
Leased assets	-	-	-	1,490,404	(1,490,403)	1
Work in progress	27,402,656	-	27,402,656	27,193,327	-	27,193,327
Total	503,396,017	(244,159,497)	259,236,520	467,480,719	(227,206,407)	240,274,312

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Buildings	13,056,043	-	-	2,449,225	-	(284,128)	15,221,140
Plant and Equipment	2,569,081	1,703,402	-	(95,523)	-	(588,207)	3,588,753
Furniture and fixtures	3,932,984	404,989	(31,980)	(62)	-	(1,200,374)	3,105,557
Motor vehicles	7,193,914	1,227,734	112,673	(105,274)	(7,401)	(1,714,647)	6,706,999
IT equipment	881,184	35,813	-	-	(204)	(334,881)	581,912
Infrastructure	89,487,650	8,933,771	-	9,015,397	-	(10,401,003)	97,035,815
Community	92,553,494	510,869	-	14,155,606	-	(4,804,944)	102,415,025
Other property, plant and equipment	161,124	-	-	(2,820)	2,819	(65,593)	95,530
Libraries	3,245,510	-	-	-	-	(162,377)	3,083,133
Lease	1	-	-	-	(1)	-	-
Work In Progress	27,193,327	26,584,772	-	(26,375,443)	-	-	27,402,656
	240,274,312	39,401,350	80,693	(958,894)	(4,787)	(19,556,154)	259,236,520

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Restatements	Total
Buildings	13,828,435	-	-	-	-	(772,392)	-	-	13,056,043
Plant and machinery	2,183,855	809,099	-	-	-	(422,397)	(1,476)	-	2,569,081
Furniture and fixtures	4,051,348	1,060,183	(2,055)	-	-	(1,158,580)	(17,294)	(618)	3,932,984
Motor vehicles	3,033,233	1,326,054	(186,109)	-	-	(1,055,619)	(9,277)	4,085,632	7,193,914
IT equipment	1,001,645	256,019	(18,525)	-	-	(336,259)	-	(21,696)	881,184
Infrastructure	86,235,508	8,291,306	-	-	5,679,176	(10,726,443)	-	8,103	89,487,650
Community	84,536,867	7,518,291	-	-	4,970,312	(4,478,791)	(29,763)	36,578	92,553,494
Other property, plant and equipment	177,246	(926,640)	-	-	-	(103,381)	-	1,013,899	161,124
Libraries	3,407,886	-	-	-	-	(162,376)	-	-	3,245,510
Lease	58,071	-	(7)	-	-	(58,063)	-	-	1
Work in progress	20,480,735	19,120,027	-	(1,748,419)	(10,659,016)	-	-	-	27,193,327
	218,994,829	37,454,339	(206,696)	(1,748,419)	(9,528)	(19,274,301)	(57,810)	5,121,898	240,274,312

Other information

" No assets of the municipality have been ceded.

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3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	13,716,202	10,215,317	3,261,265	27,192,784
Additions/capital expenditure	3,863,082	5,612,235	2,185,335	11,660,652
Transferred to completed items	(10,366,344)	(1,006,832)	(2,985,790)	(14,358,966)
	7,212,940	14,820,720	2,460,810	24,494,470

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	87,624,644	11,775,309	2,080,143	101,480,096
Additions/capital expenditure	36,052,253	12,398,103	1,181,122	49,631,478
Transferred to completed items	(109,960,695)	(13,958,095)	-	(123,918,790)
	13,716,202	10,215,317	3,261,265	27,192,784

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services	3,362,405	100,523
General expenses	20,999	-
	3,383,404	100,523

There are no long outstanding projects which are taking longer than expected to complete.

There are indications that projects in Work in Progress are impaired.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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4. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1,124,180	(19,144)	1,105,036	881,020	-	881,020

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	881,020	243,160	(19,144)	1,105,036

Reconciliation of intangible assets - 2017

	Opening balance	Total
Computer software, other	881,020	881,020

5. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	4,808,819	-	4,808,819	4,808,819	-	4,808,819

Reconciliation of heritage assets 2018

	Opening balance	Total
Historical monuments	4,808,819	4,808,819

Reconciliation of heritage assets 2017

	Opening balance	Additions	Total
Historical monuments	4,791,660	17,159	4,808,819

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6. Employee benefit obligations

Long service awards

Independent valuers, One Pangaea Financial (Pty) Ltd, carried out a statutory valuation as at 30 June 2018.

The actuarial valuation determined that the retirement plan was in a sound financial position.

Post retirement benefit plan

The Municipality's personnel are members of one of the Natal Joint Municipal Pension retirement funds, namely the Superannuation, Retirement and Provident Funds. As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined. Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements. As the required disclosure information cannot be obtained the funds are all treated as defined contribution plans.

Post retirement medical aid plan

The municipality operates on 5 accredited medical aid schemes, namely Bonitas, Keyhealth, LA Health Hosmed and Samwumed. Pensioners continue on the option they belonged to on the day of their retirement. Independent valuers, One Pagea Financial (Pty) Ltd, carried out a statutory valuation as at 30 June 2018. The post-retirement medical obligations at 30 June 2018 quantified the present value of unfunded obligations at R6,089,000. The Current-service costs for the year ending 30 June 2018 is estimated at R289 000. The principal actuarial assumptions used included a discount rate of Yield Curve , and a health care cost inflation rate of CPI + 1.

Long service : The amounts recognised in the statement of financial position are as follows:

Carrying value		
Opening balance	(4,738,000)	(3,917,000)
Current service costs	(289,000)	(273,000)
Interest costs	(481,000)	(396,000)
Benefit paid	175,000	174,858
Actuarial loss/ (gain)	(756,000)	(326,858)
	(6,089,000)	(4,738,000)

Examples of mortality rates used are as follows

Members withdrawal from the service	Males	Females
Age Band		
20	16.00 %	24.00 %
25	12.00 %	18.00 %
30	10.00 %	15.00 %
35	8.00 %	10.00 %
40	6.00 %	6.00 %
45	4.00 %	4.00 %
50	2.00 %	2.00 %
55	1.00 %	1.00 %
	-	-

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	19,149,000	12,449,000
Net expense recognised in the statement of financial performance	6,089,000	6,700,000
	25,238,000	19,149,000

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6. Employee benefit obligations (continued)

Statement of Financial performance obligation for

Actuarial (gains) losses – Obligation	756,000	326,858
Actuarial (gains) losses – Plan assets	(175,000)	(269,000)
	581,000	57,858

Long service : The amounts recognised in the Statement of Financial Performance were as follows:

Opening balance	130,000	-
Expected return	291,000	276,000
Actuarial gains (losses)	(194,000)	(269,000)
Assets distributed on settlements	(139,000)	154,000
Benefits paid	157,000	(31,000)
	245,000	130,000

7. Prepayments

Prepayments	675 156	373 815
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Prepayments for prior year relate to insurance costs which were paid in advance.

Prepayment for the current year relate to SALGA membership paid in advance.

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8. Inventories		
Consumable stores	40,717	-
Land held for sale	2,532,982	3,159,123
	2,573,699	3,159,123
Disposals	(227,509)	(626,140)
	2,346,190	2,532,983
Carrying value of inventories carried at fair value less costs to sell	2,045,190	2,532,983
Inventories recognised as an expense during the year	832,832	154,530
Consumables stores relate to Cleaning chemicals and Stationery. Land held for sale is included in the Assets Held for Sale.		
9. Receivables from exchange transactions		
Housing debtors	122,298	122,298
Consumer debtors - Refuse	4,509,041	3,330,121
Consumer debtors - Rental	1,040,600	1,022,389
Consumer debtors - Loans	-	74,737
Deposits	(63,432)	199,615
Sundry debtors	22,652	192,335
	5,631,159	4,941,495
10. VAT receivable		
VAT	4,602,892	3,636,813
11. Trade receivable from non exchange transaction		
Gross balances		
Rates	24,248,865	21,307,660
Fines	232,703	1,579,580
	24,481,568	22,887,240
Less: Allowance for impairment		
Rates	(22,057,486)	(17,639,565)
Fines	(640,482)	(1,182,113)
	(22,697,968)	(18,821,678)
Net balance		
Rates	2,191,379	3,668,095
Fines	(407,779)	397,467
	1,783,600	4,065,562

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11. Trade receivable from non exchange transaction (continued)		
Excluded in above is receivables from exchange transactions		
Housing debtors	122,298	122,298
Refuse	4,509,041	3,330,121
Rental	1,100,408	1,022,389
Loans	-	74,737
Deposits	199,615	199,615
Sundry	279,264	391,950
VAT debtors	2,146,752	3,636,813
	8,357,378	8,777,923
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	24,248,865	25,709,308
Fines	1,829,703	397,467
	26,078,568	26,106,775
Total Gross balance	34,435,946	34,884,698
Rates and refuse		
Current (0 -30 days)	824,961	9,192
31 - 60 days	703,353	439,466
61 - 90 days	643,554	561,032
91 - 120 days	628,834	449,938
>120 days	28,957,204	27,579,801
	31,757,906	29,039,429
Fines		
Current (0 -30 days)	1,829,703	397,467
Housing debtors		
>120 days	122,298	122,298
Rental		
Greater than 120 days	1,100,408	1,022,389
Loans		
Current (0 -30 days)	-	74,737
Deposits		
>120 days	199,615	199,615
Sundry		
Current (0 -30 days)	-	38,251
31 - 60 days	-	38,251
61 - 90 days	-	19,729
91 - 120 days	-	84,075
>120 days	279,264	211,644
	279,264	391,950

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
11. Trade receivable from non exchange transaction (continued)		
VAT Debtors		
Current (0 -30 days)	2,146,752	3,636,813
Reconciliation of allowance for impairment		
Balance at beginning of the year	(17,639,565)	(15,718,090)
Contributions to allowance	(5,058,403)	(3,103,588)
	(22,697,968)	(18,821,678)
12. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	5,249	5,249
Bank balances	-	6,390,977
Short-term deposits	136,372,883	111,904,376
Bank overdraft	(1,434,618)	-
	134,943,514	118,300,602
Current assets	136,378,132	118,300,602
Current liabilities	(1,434,618)	-
	134,943,514	118,300,602

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12. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2018	June 30, 2017	June 30, 2016
FNB - Current Account - 52552416194	5,214,266	6,396,226	11,361,934	4,841,738	6,396,226	11,361,934
FNB - Equitable Share - 62143895988	6,166,184	650,336	5,401,006	6,404,365	650,336	5,401,006
FNB - Equitable Share - 74617848129	-	10,729,139	-	-	10,729,139	-
FNB - Equitable Share - 62248166218	664,709	(9,147,188)	613,504	664,709	(9,147,188)	613,504
FNB - 7 Day Call Short Term Investment Account	-	282,546	5,013,041	-	282,546	5,013,041
FNB - Lums - 62074735831	-	15,253,356	15,253,356	-	15,253,356	15,253,356
FNB Investment account	-	38,346	-	-	38,346	-
FNB - 74590521793	6,464,559	-	-	6,464,559	-	-
FNB Investment	-	555,254	-	-	555,254	-
FNB Investment account	-	10,778,890	-	-	10,778,890	-
FNB - Equitable	-	10,288,805	-	-	10,288,805	-
FNB - 71770508335	5,677,600	-	-	5,677,600	-	-
ABSA - Small Town Rehab/3 months fixed deposit - 2074566678	-	-	5,624,830	-	-	5,624,830
ABSA - Small Town Rehab/3 months fixed deposit - 2074567242	-	12,034,457	11,303,000	-	12,034,457	11,303,000
ABSA - Bank - 2074567242	12,944,135	-	-	12,944,135	-	-
ABSA - 2075702582	-	-	5,180,654	-	-	5,180,654
ABSA - Small Town Rehab/3 months fixed deposit - 20751136603	-	11,632,881	10,852,132	-	11,632,881	10,852,132
Nedbank - Fixed Deposit 1 month - 7881076763/001	-	197,266	-	-	197,266	-
Nedbank - Fixed Deposit 3 month - 7881076763/101	-	5,477,350	-	-	5,477,350	-
Nedbank - Fixed Deposit 1 month - 7881076763/018	-	5,000,000	-	-	5,000,000	-
Nedbank - Investment Account - 7883076763/121	15,889,682	-	-	15,889,682	-	-
Standard Bank - 068730276-008	14,494	-	-	14,494	-	-
Standard Bank - 90 Days	-	(10,231,644)	29	-	(10,231,644)	29
Standard Bank - 90 Days	-	10,011,381	11,219	-	10,011,381	11,219
Standard Bank - 068730276 005	-	12,508,568	11,561,919	-	12,508,568	11,561,919
Standard Bank - 068730276 001	109,507	-	-	109,507	-	-
Standard Bank - 068730276-006	5,328,561	-	-	5,328,561	-	-
Standard Bank - R6M	-	10,245,482	10,245,482	-	10,245,482	10,245,482
Ithala Bank - 46170792	32,542,736	-	-	32,542,736	-	-
Ithala Bank - Equitable Share - 46142189	-	131,433	5,745,480	-	131,433	5,745,480
Ithala Bank - Equitable Share	-	5,062,205	5,062,205	-	5,062,205	5,062,205
INVESTEC - 11005393353455	43,798,381	-	-	43,798,381	-	-
INVESTEC-50011092081	-	10,405,513	-	-	10,405,513	-
Total	134,814,814	118,300,602	103,229,791	134,680,467	118,300,602	103,229,791

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13. Housing operating account

Loans extinguished by Government on 1 April 1998	373,787	373,787
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The housing operating account is represented by the following assets and liabilities

Housing selling scheme loans	122,298	122,298
Bank and cash	251,489	251,489
Assets	373,787	373,787
Total Housing Development Fund Assets and Liabilities	373,787	373,787

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Mckenzie Farm	428,422	428,422
Electrification : DOE	-	1
Small Town Rehabilitation	18,245	18,245
Ixopo Sportfields	-	8,278
Sangcwaba Grant	565,387	565,387
Ixopo Sportfield Mantainance	151,461	143,182
	1,163,515	1,163,515

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

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15. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Leave pay provision	3,651,080	242,532	3,893,612
Long term service award provision	1,962,000	393,000	2,355,000
	5,613,080	635,532	6,248,612

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Leave pay provision	3,089,200	561,880	3,651,080
Employee benefit cost	1,832,000	130,000	1,962,000
	4,921,200	691,880	5,613,080
Non-current liabilities		2,355,000	1,962,000
Current liabilities		3,893,612	3,651,080
		6,248,612	5,613,080

Long services award are payable after ten years of continuous services and every five years thereafter to employees.

Provision is an estimate of the long service award base on historic staff turnover, taking into account management estimate of the likelihood that staff may leave before long services become due. No other long services benefit are provided to employees.

16. Payables from exchange transactions

Trade payables	16,758,727	5,258,643
Unallocated deposits	1,126,897	1,185,415
Other creditors	256,092	-
Deposits other	32,134	444,589
Other payables	-	1,101
Retention	9,306,787	8,514,273
Advance payments	1,318,985	-
	28,799,622	15,404,021

17. Revenue

Service charges	2,155,141	1,762,066
Rental of facilities	923,761	1,173,223
Agency services	634,223	714,848
Licences and permits	2,710,002	3,304,893
Other income - Miscellaneous	220,901	993,735
Interest received - investment	10,664,810	9,215,250
Property rates	12,744,064	11,947,679
Donation income	-	4,230,683
Government grants	126,444,003	124,757,917
Fines	-	1,579,580
	156,496,905	159,679,874

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17. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	2,155,141	1,762,066
Rental of facilities and equipment	923,761	1,173,223
Agency services	634,223	714,848
Licences and permits	2,710,002	3,304,893
Other income - Miscellaneous	220,901	993,735
Interest received - investment	10,664,810	9,215,250
	17,308,838	17,164,015

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	12,744,064	11,947,679
Donation income	-	4,230,683
Transfer revenue		
Government grants	126,444,003	124,757,917
Fines	-	1,579,580
	139,188,067	142,515,859

18. Service charges

Refuse removal	2,037,394	1,726,005
Other service charges - Fire	117,747	36,061
	2,155,141	1,762,066

19. Rental of facilities and equipment

Premises

Hall hire	-	140,394
Rental of Buildings	923,761	1,032,829
	923,761	1,173,223
	923,761	1,173,223

20. Other income

Rates Clearance	3,289	1,968
Sundry Income	155,518	781,179
Admin Fees	-	59,899
Disposal of land	-	18,009
Skills development	62,094	132,680
	220,901	993,735

21. Investment revenue

Interest revenue

Short term investments	10,664,810	9,215,250
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Figures in Rand	2018	2017
22. Property rates		
Rates received		
Residential	3,621,796	3,729,273
Commercial	2,794,834	2,877,770
State	2,781,121	2,863,651
Agricultural	2,382,272	1,305,402
Communal	17,991	18,525
Industrial	636,159	655,037
Public Service Infrastructure	509,891	525,021
	12,744,064	11,974,679

The reduction in rates income was due to a reduction in the number of properties billed.

Valuations

Residential	223,094,000	223,094,000
Commercial	258,459,000	258,459,000
Industrial	22,050,000	22,050,000
Municipal	56,871,000	56,871,000
Agricultural	1,801,095,000	1,801,095,000
Vacant Land	25,900,000	25,900,000
Farm : Residential	4,691,000	4,691,000
Smallholdings : Agricultural	2,525,000	2,525,000
Smallholdings : Commercial	6,526,000	6,526,000
Ingonyama Trust	267,314,000	267,314,000
Commercial Settlement	12,245,000	12,245,000
	2,680,770,000	2,680,770,000

Valuations on land and buildings are performed every 5 years. In terms of the new MPRA legislation an extension of 1 year has been granted. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alteration and subdivisions. Rates are levied in 12 monthly equal instalments with the first being due at the end of July and the last instalments in June.

The municipality does not levy rates on the first R15 000 of the market value of properties assigned to the categories below:

Residential
Agricultural
Small holding (Agricultural)
Commercial
Industrial and
Communal

The new general valuation will be implemented on 01 July 2018.

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Figures in Rand	2018	2017
23. Government grants and subsidies		
Operating grants		
Equitable share	95,443,000	90,491,000
FMG	1,900,000	1,825,000
Library Assistant - Cyber	-	179,000
Library Grant	771,000	559,000
EPWP	1,000,000	1,985,000
	99,114,000	95,039,000
Capital grants		
MIG	27,330,003	24,057,000
McKenzie Farm	-	52,374
Small town rehabilitation	-	5,609,543
	27,330,003	29,718,917
	126,444,003	124,757,917
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	51,001,000	58,605,000
Unconditional grants received	95,443,000	90,491,000
	146,444,000	149,096,000
Mc Kenzie Farm		
Balance unspent at beginning of year	428,422	480,796
Conditions met - transferred to revenue	-	(52,374)
	428,422	428,422
Conditions still to be met - remain liabilities (see note 14).		
Provide explanations of conditions still to be met and other relevant information.		
FMG Grant		
Current-year receipts	1,900,000	1,825,000
Conditions met - transferred to revenue	(1,900,000)	(1,825,000)
	-	-
Conditions still to be met - remain liabilities (see note 14).		
Provide explanations of conditions still to be met and other relevant information.		
Electrification Grant - Cogta		
Conditions still to be met - remain liabilities (see note 14).		
Provide explanations of conditions still to be met and other relevant information.		
Electrification Grant - DOE		
Balance unspent at beginning of year	1	-

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Figures in Rand	2018	2017
23. Government grants and subsidies (continued)		
Current-year receipts	20,000,000	30,000,000
Conditions met - transferred to revenue	(20,000,001)	(29,999,999)
	-	1

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Municipal Infrastructure Grant

Current-year receipts	27,330,000	24,057,000
Conditions met - transferred to revenue	(27,330,000)	(24,057,000)
	-	-

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Library Grant

Current-year receipts	771,000	559,000
Conditions met - transferred to revenue	(771,000)	(559,000)
	-	-

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Small Town Rehab _ Roads

Balance unspent at beginning of year	18,245	18,245
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Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Ixopo sports mantainance Grant

Balance unspent at beginning of year	8,278	8,278
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Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Sangcwaba Grant

Balance unspent at beginning of year	565,387	565,387
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Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

EPWP Grant

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Figures in Rand	2018	2017
23. Government grants and subsidies (continued)		
Current-year receipts	1,000,000	1,985,000
Conditions met - transferred to revenue	(1,000,000)	(1,985,000)
	-	-

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Ixopo Sportsfield Grant

Balance unspent at beginning of year	143,182	143,182
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Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Library Assistant

Current-year receipts	-	179,000
Conditions met - transferred to revenue	-	(179,000)
	-	-

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

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24. Employee related costs

Basic salaries and wages	42,338,505	37,369,896
Bonus	3,281,331	3,058,776
Medical aid - company contributions	2,012,973	2,250,577
UIF	353,442	368,937
SDL	578,847	438,135
Other payroll levies	44,077	20,742
Leave pay provision charge	1,801,958	2,024,791
Pension	6,451,184	5,916,559
Travel, motor car, accommodation, subsistence and other allowances	1,526,924	1,971,443
Overtime payments	2,231,119	1,366,973
Long-service awards	393,000	176,275
Housing benefits and allowances	18,322	34,132
Post Retirement Obligation	1,880,446	821,000
	62,912,128	55,818,236

Remuneration of municipal manager

Annual Remuneration	965,054	1,004,731
Performance Bonuses	169,185	170,297
Contributions to UIF, Medical and Pension Funds	153,046	132,674
Travel ,Motor car , accomodation,subsistence and other allowances.	150,842	141,969
	1,438,127	1,449,671

Remuneration of chief finance officer

Annual Remuneration	523,547	680,540
Performance Bonuses	-	124,020
Contributions to UIF, Medical and Pension Funds	4,169	78,454
Travel ,Motor car , accomodation,subsistence and other allowances	156,702	142,848
	684,418	1,025,862

The Chief Financial Officer was appointed during the year on 1 October 2018.

Corporate and human resources (corporate services)

Annual Remuneration	813,908	803,461
Performance Bonuses	130,747	125,482
Contributions to UIF, Medical and Pension Funds	82,304	12,126
Travel ,Motor car , accomodation,subsistence and other allowances.	123,665	120,865
	1,150,624	1,061,934

Social Development

Annual Remuneration	393,880	252,971
Contributions to UIF, Medical and Pension Funds	81,112	3,529
Travel ,Motor car , accomodation,subsistence and other allowances.	88,441	47,030
	563,433	303,530

The director for Social and Development was appointed on 1 November 2017

Technical Services

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Figures in Rand	2018	2017
24. Employee related costs (continued)		
Annual Remuneration	838,493	800,299
Performance Bonuses	114,396	89,630
Contributions to UIF, Medical and Pension Funds	109,507	11,544
Travel ,Motor car , accomodation,subsistance and other allowances.	113,459	98,634
	1,175,855	1,000,107
25. Remuneration of councillors		
Executive Mayor	840,313	763,394
Deputy Executive Mayor	610,693	619,461
Exco Members	1,408,469	3,462,095
Speaker	592,530	354,604
Councillors	6,449,679	3,179,248
	9,901,684	8,378,802
In-kind benefits		
The Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.		
The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.		
The Mayor has three full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.		
26. Depreciation and amortisation		
Property, plant and equipment	20,241,442	19,889,581
Investment property	210,322	225,280
Intangible assets	19,144	-
	20,470,908	20,114,861
27. Impairment		
Impairments		
Property, plant and equipment	-	57,809
28. Finance costs		
Other interest paid	2,856	1,423
29. Provision for Bad debts		
Self help housing	59,808	-
Traffic fines	4,417,921	1,364,866
Property Rates	-	1,921,476
	4,477,729	3,286,342

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30. Contracted services		
Rental Hardware	3,035,620	5,877,221
Other Contractors	8,800	887,519
Maintenance of equipment	3,368,972	100,523
Catering	440,252	-
Event promoters	1,203,896	292,964
Security services	6,450,187	1,602,509
Plants and decorations	100,225	26,810
Employee wellness	25,473	-
Pest control and fumigation	13,287	6,359
Maintenance services	20,999	-
Audit fees - external	1,391,515	1,093,746
Audit committee fees	94,772	124,384
	16,153,998	10,012,035

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Figures in Rand	2018	2017
31. General expenses		
Mscoa Implementation	-	196,222
Advertising	1,445,487	709,620
Bank charges	212,740	127,405
Consumables	832,832	154,530
Entertainment	59,595	102,262
Road Traffic levy	5,497	9,206
Free Basic Services	1,387,043	1,295,791
Conferences and seminars	550,762	-
Youth Upliftment	-	195,152
IT expenses	197,570	-
Magazines, books and periodicals	-	111,070
Disaster Management : Back to school	-	370,991
Fuel and oil	1,768,996	1,649,539
Postage and courier	149,244	91,518
Printing and stationery	597,325	727,651
Bursary - Staff	-	31,776
Bursary Youth	-	599,990
Town Planning Initiative	464,519	663,993
Art promotional expenses	-	527,006
Employment creation and assistant programme	1,132,405	2,020,219
Legal fees	-	786,280
Software expenses	-	49,341
Ward Committees	735,976	700,683
Subscriptions and membership fees	674,298	732,503
Strategic Planning	4,018,288	1,242,442
HIV / AIDS Awareness	-	215,431
Training	681,286	1,558,004
Travel - local (S&T , Reimbursive travel)	2,050,187	1,546,165
Refuse Expenses	-	462,100
Title deed search fees	-	96,030
Water and electricity	818,548	536,188
Uniforms/ Protective Clothing	806,960	471,008
Tourism development	-	26,076
Special Programmes	-	979,979
Arts and Culture	-	217,959
Gender Development & community upliftment	-	222,489
IDP Budget review	-	106,487
Licence and permits	158,326	207,360
Sports and recreation	-	460,307
Moral regeneration	-	34,860
LED Projects	-	894,801
Other expenses	466,959	478,217
	19,214,843	21,608,651

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Figures in Rand	2018	2017
32. Cash generated from operations		
Surplus	23,489,989	36,397,926
Adjustments for:		
Depreciation and amortisation	20,470,908	20,114,861
Transfer of assets	(127,230)	1,748,421
Impairment loss	5,118,211	3,286,342
Impairment deficit	-	57,809
Provisions	4,477,729	3,286,342
Other non-cash items	-	461,877
Correction of error	(9,320,265)	1,597,136
Changes in working capital:		
Inventories	186,793	623,139
Receivables from exchange transactions	(689,664)	(533,590)
Trade receivables from exchange transactions	(2,195,767)	(2,771,267)
Prepayments	(301,341)	(373,815)
Payables from exchange transactions	13,395,601	(7,171,454)
VAT	(966,079)	(1,387,973)
Movement in finance lease obligation	-	(62,932)
Unspent conditional grants and receipts	-	(8,601,713)
	54,889,885	47,492,109

33. Financial instruments disclosure

Categories of financial instruments

2018

Financial Assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	6,210,626	6,210,626
Other receivables from non-exchange transactions	7,006,767	7,006,767
Prepayment	373,815	373,815
Cash and cash equivalents	137,136,607	137,136,607
VAT receivable	2,146,752	2,146,752
	152,874,567	152,874,567

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	29,049,067	29,049,067
Other liability	4,030,348	4,030,348
	33,079,415	33,079,415

2017

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	5,885,269	5,885,269
Other receivables from non-exchange transactions	8,093,395	8,093,395
Cash and cash equivalents	118,300,602	118,300,602

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Figures in Rand	2018	2017
33. Financial instruments disclosure (continued)		
VAT Receivable	2,532,983	2,532,983
	134,812,249	134,812,249

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	15,404,021	15,404,021
Other liability	4,103,312	4,103,312
	19,507,333	19,507,333

34. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Infrastructure	6,361,058	17,851,057
• Community	33,286,320	14,068,363
	39,647,378	31,919,420

Total capital commitments

Already contracted for but not provided for	39,647,378	31,919,420
---------------------------------------------	------------	------------

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, and grants.

35. Contingencies

Contingent liabilities

Cases:

- Litigation is in the process against the municipality relating to an ill-informed resolution taken by council to condone the sale of a council owned property way below market value. A short period after a new Council was elected and they then resolved to rescind the resolution to sell the mentioned property. A process of then declaring the sale agreement null and void was then commenced. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as likely, and the case should be resolved within the next year. Expected contingent liability of R 42 000 is expected for valuation fee.

Contingent assets

There were no contingent assets as at 30 June 2018.

36. Related parties

37. Key source of estimation, uncertainty and judgments

Property, plant and equipment

The useful life of certain plant was estimated in the previous years were In the current period revised by management. The effect of this revision has increased the depreciation charges for the current and future periods by 1 to 2 years. -

38. Prior-year adjustments

uBuhlebezwe Local Municipality implemented mScoa for the first with effect from 1 July 2017 as required by treasury. Certain transactions have been reclassified to comply with this mScoa chart of accounts and some prior period figures were restated accordingly for comparability purpose:

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2018

2017

38. Prior-year adjustments (continued)

Statement of financial position

2017

	Note	As previously reported	Correction of error	Re-classification	Restated
Receivables from exchange transactions		-	-	4,941,495	4,941,495
Vat receivable from exchange		3,066,855	-	569,959	3,636,813
Trade receivable from non exchange transaction		13,978,664	(4,401,648)	(5,511,454)	4,065,562
Trade and other payables		19,055,101	-	(3,651,080)	15,404,021
Provision		-	-	3,651,080	3,651,080
Property plant equipment		-	(1,197,080)	-	-
Unspent grants		4,103,312	(2,939,797)	-	-
		40,203,932	(8,538,525)	-	31,698,971

Statement of financial performance

2017

	Note	As previously reported	Re-classification	Restated
Service charges		1,726,005	36,061	1,762,066
Agency fees		-	714,848	714,848
Other income		1,744,644	(750,909)	993,735
Impairment of traffic fines		1,364,866	(1,364,866)	-
Employee related costs		52,842,444	2,975,792	55,818,236
Debt Impairment		3,946,267	(659,925)	3,286,342
Repairs and Maintenance		2,882,897	(2,882,897)	-
Contracted services		6,764,739	1,325,012	8,089,751
Contribution to post retirement		951,000	(951,000)	-
General Expenses		24,228,419	1,557,884	25,786,303
Surplus for the year		96,451,281	-	96,451,281

39. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

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39. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
Bank B	132,561,370	118,300,602
Wholesaler B	4,569,988	5,885,269
Other	-	8,093,395

Market risk

Interest rate risk

40. Events after the reporting date

Management is not aware of any events that occurred post balance sheet date identified during the year.

41. Fruitless and wasteful expenditure

Interest	2,856	9,636
Penalties	-	98,295
	2,856	107,931

Fruitless and wasteful expenditure in the current year relates to interest charged by Eskom.

42. Irregular expenditure

Opening balance	448,983	132,338
Add: Irregular Expenditure - current year	-	448,983
Less: Amounts condoned	-	(132,338)
	448,983	448,983

Analysis of expenditure awaiting condonation per age classification

Current year	-	132,338
Prior years	448,983	316,645
	448,983	448,983

Deviations – current year

	Reasons for deviation	
Incident 1	Impractical to follow SCM processes	252,000
Incident 2	Impractical to follow SCM processes	56,511
		308,511

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43. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	675,156	578,920
Amount paid - current year	(675,156)	(578,920)
	-	-
Audit fees		
Current year subscription / fee	1,391,514	1,218,130
Amount paid - current year	(1,391,514)	(1,218,130)
	-	-
PAYE, UIF & Skills		
Current year subscription / fee	9,442,932	7,876,065
Amount paid - current year	(9,442,932)	(7,876,065)
	-	-
Pension and Medical Aid Contributions		
Current year subscription / fee	10,830,557	8,560,672
Amount paid - current year	(10,830,557)	(8,560,672)
	-	-
VAT		
VAT receivable	4,602,892	3,636,813
VAT payable	-	-
	4,602,892	3,636,813

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.